

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Northpointe Behavioral Healthcare Systems		County Dickinson	
Fiscal Year End 9/30/06		Opinion Date 1/19/07		Date Audit Report Submitted to State 3/20/07			

We affirm that:

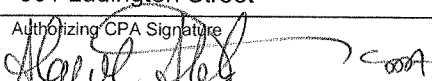
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | YES | NO | Check each applicable box below. (See instructions for further detail.) |
|---|--------------------------|---|
| 1. <input checked="" type="checkbox"/> | <input type="checkbox"/> | All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| 2. <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| 3. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| 4. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has adopted a budget for all required funds. |
| 5. <input checked="" type="checkbox"/> | <input type="checkbox"/> | A public hearing on the budget was held in accordance with State statute. |
| 6. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| 7. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| 8. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit only holds deposits/investments that comply with statutory requirements. |
| 9. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| 10. <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| 11. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is free of repeated comments from previous years. |
| 12. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The audit opinion is UNQUALIFIED. |
| 13. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| 14. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute. |
| 15. <input checked="" type="checkbox"/> | <input type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			Telephone Number 906-786-3111	
Street Address 901 Ludington Street			City Escanaba	State MI
			Zip 49829	
Authorizing CPA Signature 		Printed Name Alan M. Stotz, CPA		License Number 1599539

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

FINANCIAL STATEMENTS

September 30, 2006

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT.	1
MANAGEMENT'S DISCUSSION AND ANALYSIS.	3
FINANCIAL STATEMENTS:	
Combined Government-Wide and Fund Financial Statements- Statement of Net Assets and Governmental Funds Balance Sheet.	7
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	8
Combined Government-Wide and Fund Financial Statements- Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance.	9
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities.	11
Notes to Financial Statements.	12
REQUIRED SUPPLEMENTARY INFORMATION:	
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual-General Fund	26
OTHER INFORMATION:	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards.	29



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA
Lindsay J. Behrend, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Northpointe Behavioral Healthcare Systems
Kingsford, Michigan

We have audited the accompanying financial statements of Northpointe Behavioral Healthcare Systems, (Northpointe), as of and for the year ended September 30, 2006, as listed in the table of contents. These financial statements are the responsibility of Northpointe's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of Northpointe Behavioral Healthcare Systems, as of September 30, 2006, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2007, on our consideration of Northpointe's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion

Board of Directors
Northpointe Behavioral Healthcare Systems

on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 6 and 26 through 27, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United State of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Anderson, Tackman & Company P.C.

Certified Public Accountants

January 19, 2007

Management Discussion and Analysis

Northpointe Behavioral Healthcare System

Year Ended September 30, 2006

Northpointe Behavioral Healthcare Systems Authority (Northpointe) is a mental health authority located in Kingsford, Michigan that was created under PA258 of 1974, as amended, by Act 152 of 1996 and provides mental health services to residents of Dickinson, Iron, and Menominee Counties. Northpointe is in its fourth year of implementation of the provisions of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) with the enclosed financial statements. The primary objective of GASB 34 is to enhance the understandability and usefulness of these financial statements to Board members, citizens, and investors or creditors.

Provisions of GASB 34 required Northpointe to implement the new financial reporting model for the fiscal year ending September 30, 2003. Generally, the financial information will be reported in a two-year comparative format. We encourage readers to consider the information presented here in conjunction with the additional information found within the body of the audit.

Overview of the Basic Financial Statements

The Statement of Net Assets and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance report information about Northpointe as a whole and about its activities in a way that portrays the results of the current year's operations. Since Northpointe is being reported as a Special Purpose Government (Note A), the statements show both the Government Wide and Fund Level reporting methods. Therefore, the General Fund columns are reported on the modified accrual basis. Only those assets that are measurable and currently available are reported. Liabilities are recognized to the extent that they will be paid with current financial resources. The total Statement columns represent information about Northpointe using public-like business statements.

The Statement of Net Assets provides the basis for evaluating the capital structure of Northpointe and assessing its liquidity and financial flexibility.

The Statement of Activities presents information that shows how Northpointe's net assets changed during the year. In addition, it also measures the success of Northpointe over the past year and determines whether Northpointe has adequate revenues to provide for their operations.

Financial Analysis of Northpointe

Net assets –These statements present information reflecting North Pointe’s assets, liabilities and net assets and is categorized into current and non-current assets and liabilities. For the purposes of the financial statements, current and non-current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectable or becoming due within 12 months of the statement date.

Net assets as of the year ended September 30,

	2005	2006
Current Assets	\$3,985,299	\$3,543,526
Capital Assets	1,637,934	1,588,648
Restricted-current assets	<u>335,846</u>	<u>373,052</u>
Total Assets	<u>\$5,959,079</u>	<u>\$5,505,226</u>
Current Liabilities	\$2,857,566	\$2,507,637
Long-Term Liabilities	<u>1,387,773</u>	<u>1,072,996</u>
Total Liabilities	<u>\$4,245,339</u>	<u>\$3,580,633</u>
Net Assets		
Investment in capital assets,		
Net of related debt	\$ 375,084	\$ 403,632
Restricted		
Unrestricted	<u>1,338,656</u>	<u>1,520,961</u>
Total Net Assets	<u>\$1,713,740</u>	<u>\$1,924,593</u>

Statement of Revenues, Expenditures and Changes in Fund Balance

	2005	2006
REVENUE		
Federal Block Grant	\$ 170,156	\$ 172,969
State General Fund	2,919,338	3,226,425
State/NorthCare Medicaid	10,444,765	11,365,858
Local	248,351	242,101
Charges for Services	763,881	871,038
Other Revenue	<u>122,831</u>	<u>218,452</u>
Total Revenue	<u>\$14,669,322</u>	<u>\$16,096,843</u>

EXPENDITURES	2005	2006
Current:		
Salaries & Related Expense	\$8,514,896	\$9,241,652
Operational	2,515,576	2,375,278
Contractual	3,415,891	4,214,840
Debt Service:		
Interest	45,202	54,220
Total Expenditures	14,491,565	\$15,885,990
Change in net assets	177,757	210,853
Beginning of the Year	1,535,983	1,713,740
End of the Year	<u>\$ 1,713,740</u>	<u>\$ 1,924,593</u>

Analysis of Overall Financial Position

Balance Sheet – The Northpointe balance sheet lists several liability account items that require explanation as follows:

- Medicaid savings Fiscal Year 2006 reported as a liability of \$199,124 is Medicaid funding that was not spent in Fiscal Year 2006 and is payable to NorthCare; Northpointe expects the \$199,124 to be returned to Northpointe to be available for use in FY 07.
- Carry forward of Fiscal Year 2006 reported as a deferred revenue of \$13,987 is General Fund not spent and available in Fiscal Year 2007.

Revenue – Northpointe has a high concentration of revenue from public funds with Medicaid consisting of approximately 71% and State General Fund approximately 20% of total budgeted revenue. Northpointe has formed a regional alliance with the five other U.P. Community Mental Health Boards (NorthCare) to continue to secure the Medicaid funding for the region. This alliance will also allow Northpointe to share expertise and reduce operational costs. Northpointe's full continuum of services and knowledge of the local consumers and the ability to meet their needs are all factors in our ability to maintain a contractual relationship with the State of Michigan.

Expenditures: - Northpointe continuously monitors expenditures in an effort to reduce costs and improve services. Northpointe regularly conducts salary and benefit surveys to compare against peers and ensure competitiveness and prudence with those peers. Northpointe also has a successful procurement policy in place, which ensures that major services and products are purchased at the best pricing available.

Budget Analysis

Northpointe's Fiscal Year 05-06 actual revenue and expenditures differed from the original budget by approximately 2%. The Northpointe finance committee and the full Board review the balance sheet and income statement each month to ensure that both revenue and expenditure targets are within acceptable variances.

Long Term Debt

At year-end, Northpointe had \$1,185,016 of outstanding notes payable - a decrease of approximately \$77,834 from the prior year. This decrease in debt results primarily from the repayment of existing outstanding loans. More detailed information about Northpointe's long-term liabilities is presented in Note L to the financial statements.

Capital Assets

Northpointe retains capital assets in the amount of \$1,588,648. The major additions for the 2005-06 fiscal year were primarily vehicles purchased to replace fully depreciated vehicles. No capital asset disposals occurred in 2006. A summary of the changes in capital assets for the year ended September 30, 2006 is contained in Note K to the financial statements.

Economic Factors Affecting Northpointe' Future

There are several factors that could affect Northpointe in the future.

- The economy of the State of Michigan continues to struggle and may affect Northpointe in future years.
- The Federal Government is beginning to look at the Medicaid system in an effort to reduce Medicaid expenditures.

Contacting Northpointe's Financial Management

This financial report is designed to provide citizens, taxpayers, consumers, staff, Board members, creditors and other interested parties with a general overview of Northpointe's finances and to demonstrate Northpointe's accountability for the revenues received. If you have any questions about this report or need any additional information, please contact Northpointe's Finance Director at 715 Pyle Dr. Kingsford, Michigan 49802.

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

COMBINED GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET

September 30, 2006

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
ASSETS:			
Current assets:			
Cash:			
Unrestricted	\$ 3,331,830	\$ -	\$ 3,331,830
Restricted	373,052	-	373,052
Receivables	144,399	-	144,399
Prepaid expenses	67,297	-	67,297
Total current assets	<u>3,916,578</u>	<u>-</u>	<u>3,916,578</u>
Noncurrent assets:			
Land	-	44,700	44,700
Other capital assets, net of accumulated depreciation	<u>-</u>	<u>1,543,948</u>	<u>1,543,948</u>
Total noncurrent assets	<u>-</u>	<u>1,588,648</u>	<u>1,588,648</u>
TOTAL ASSETS	<u><u>\$ 3,916,578</u></u>	<u><u>\$ 1,588,648</u></u>	<u><u>\$ 5,505,226</u></u>
LIABILITIES:			
Current liabilities:			
Accounts payable	\$ 637,815	\$ -	\$ 637,815
Due to state	63,990	-	63,990
Due to Northcare	881,781	-	881,781
Accrued payroll and fringes	305,002	-	305,002
Accrued health care	104,054	-	104,054
Deferred revenue	35,077	-	35,077
Accrued sick and vacation	91,975	-	91,975
Notes payable	<u>-</u>	<u>387,943</u>	<u>387,943</u>
Total current liabilities	<u>2,119,694</u>	<u>387,943</u>	<u>2,507,637</u>
Noncurrent liabilities:			
Accrued sick and vacation	275,923	-	275,923
Notes payable	<u>-</u>	<u>797,073</u>	<u>797,073</u>
Total noncurrent liabilities	<u>275,923</u>	<u>797,073</u>	<u>1,072,996</u>
TOTAL LIABILITIES	<u>2,395,617</u>	<u>1,185,016</u>	<u><u>\$ 3,580,633</u></u>
FUND BALANCES/NET ASSETS:			
Fund balances:			
Unreserved	<u>1,520,961</u>	<u>(1,520,961)</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 3,916,578</u></u>		
NET ASSETS:			
Invested in capital assets, net of related debt		403,632	403,632
Unrestricted - Act 423 funds		<u>1,520,961</u>	<u>1,520,961</u>
TOTAL NET ASSETS		<u><u>\$ 1,924,593</u></u>	<u><u>\$ 1,924,593</u></u>

See accompanying notes to financial statements.

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET ASSETS**

September 30, 2006

Total fund balances for governmental fund		\$ 1,520,961
Total net assets reported for governmental activities in the Statement of Net Assets is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund. Those assets consist of:		
Land	\$ 44,700	
Land improvements	5,092	
Building	1,466,427	
Equipment	910,465	
Vehicles	1,038,433	
Less: accumulated depreciation	<u>(1,876,469)</u>	1,588,648
Long-term debt is not due and payable in the current period and accordingly is not reported as a fund liability. All liabilities, both current and long-term, are reported in the Statement of Net Assets.		
Notes Payable, current portion	\$ 387,943	
Notes Payable, noncurrent portion	<u>797,073</u>	\$ (1,185,016)
Total net assets		<u>\$ 1,924,593</u>

See accompanying notes to financial statements.

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

**COMBINED GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF REVENUES
EXPENDITURES, AND CHANGES IN FUND BALANCE**

For the year ended September 30, 2006

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
REVENUES:			
Federal sources	\$ 172,969	\$ -	\$ 172,969
State sources	3,226,425	-	3,226,425
Medicaid	11,365,858	-	11,365,858
Medicare	148,799	-	148,799
Local	242,101	-	242,101
Charges for services	722,239	-	722,239
Other revenues	218,452	-	218,452
Proceeds from borrowing	<u>50,912</u>	<u>(50,912)</u>	<u>-</u>
 TOTAL REVENUE	 <u>16,147,755</u>	 <u>(50,912)</u>	 <u>16,096,843</u>
EXPENDITURES:			
Current:			
Salaries and related expenses	9,241,652	-	9,241,652
Board related expenses	31,922	-	31,922
Office supplies and postage	53,357	-	53,357
Operating and program supplies	352,402	-	352,402
Client medical	171,504	-	171,504
Pharmacy	58,774	-	58,774
Dental	13,719	-	13,719
MIS support	156,781	-	156,781
Staff medical	27,467	-	27,467
Local match MRS Grant	12,168	-	12,168
Contract employee services	148,216	-	148,216
Legal, professional, accounting	14,285	-	14,285
Local in-patient	506,776	-	506,776
County in-patient	24,870	-	24,870
State in-patient	277,495	-	277,495
Home services	2,092,496	-	2,092,496
Community mental health	2,049	-	2,049
Pathways	23,429	-	23,429
Trico	530,800	-	530,800
Goodwill	318,983	-	318,983
DICSA	61,992	-	61,992
Crisis services	23,240	-	23,240
Respite	133,845	-	133,845
Telephone	110,515	-	110,515
Utilities	127,872	-	127,872
Staff development and travel	168,871	-	168,871
Vehicle operations/maintenance	176,659	-	176,659
Advertising	17,193	-	17,193
Liability insurance	88,252	-	88,252
Repairs and maintenance	165,924	-	165,924
Rent-facilities and equipment	299,172	-	299,172
Dues and publications	17,523	-	17,523
Pathways PHP	192,326	-	192,326
Miscellaneous	7,419	-	7,419
Capital outlay	132,536	(132,536)	-
Depreciation	-	181,822	181,822

See accompanying notes to financial statements

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

COMBINED GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF REVENUES
EXPENDITURES, AND CHANGES IN FUND BALANCE

For the year ended September 30, 2006

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Debt Service:			
Principal	\$ 128,746	\$ (128,746)	\$ -
Interest	<u>54,220</u>	<u>-</u>	<u>54,220</u>
TOTAL EXPENDITURES	<u>15,965,450</u>	<u>(79,460)</u>	<u>15,885,990</u>
Excess of revenues over expenditures	182,305	(182,305)	-
Change in net assets	-	210,853	210,853
Net assets, beginning of year	<u>1,338,656</u>	<u>375,084</u>	<u>1,713,740</u>
NET ASSETS, END OF YEAR	<u>\$ 1,520,961</u>	<u>\$ 403,632</u>	<u>\$ 1,924,593</u>

See accompanying notes to financial statements.

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE TO THE STATEMENT OF ACTIVITIES

September 30, 2006

Net changes in fund balance \$ 182,305

The change in net assets reported for the Statement
of Activities is different because:

Governmental funds report capital outlays as
expenditures. In the Statement of Activities,
however, the cost of those assets is capitalized
and allocated over the estimated useful lives and
reported as depreciation expense. The effect
of this difference is as follows:

Capital outlay	132,536
Depreciation expense	(181,822)

Proceeds of long-term borrowing is shown as
revenue in the governmental fund but is recorded
as a liability in the Statement of Net Assets.

	(50,912)
--	----------

Repayment of debt principal is an expenditure
in the governmental fund but reduces the debt
liability in the Statement of Net Assets

	<u>128,746</u>
--	----------------

Change in net assets	<u>\$ 210,853</u>
----------------------	-------------------

See accompanying notes to financial statements.

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Northpointe Behavioral Healthcare Systems (Northpointe) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local units of government through its pronouncements. The more significant policies established in GAAP and used by Northpointe are discussed below:

(1) Background - Northpointe Behavioral Healthcare Services Board was originally formed as a merger of the Menominee County Community Mental Health Center and the Dickinson-Iron Mental Health Services Board. This merger was provided for under the County Community Mental Health Program Act of 1986 and the Urban Cooperation Act of 1967, as amended, and was effective January 1, 1995. In accordance with the agreement each center transferred all existing assets and contracts to the new authority. Northpointe Behavioral Healthcare Systems ("Northpointe" or "Board") was reorganized as an authority under PA258 of 1974, as amended by Act 152 of 1996, effective January 6, 1998. The authority is covered under Section 205 2(e) of the Mental Health Code.

Northpointe's Board of Directors are appointed by the respective county boards of commissioners, and consist of five members each from Menominee County and Dickinson County and two members from Iron County. Northpointe was formed to provide a full range of mental health services for residents located within the three counties as required and permitted by the Michigan Mental Health Code.

(2) Reporting Entity - Because Northpointe is a separate entity under PA 258 of 1974, as amended, and is governed by a board composed of members from each of the three counties it has been defined as a jointly governed organization by GASB Statement 14 as amended by GASB 39. No county board has responsibility over Northpointe nor does any county board have an on-going financial interest in Northpointe as defined by GASB Statement 14 as amended by GASB 39. Northpointe is not a component unit of any of the three counties it serves.

The accounting policies of Northpointe conform to accounting principles generally accepted in the United States as applicable to mental health centers. The following is a summary of the more significant policies:

Basic Financial Statements-Combined Government-wide and Fund Financial Statements-Statement of Net Assets and Governmental Funds Balance Sheet - In the Combined Government-wide and Fund Financial Statements-Statement of Net Assets and Governmental Fund Balance Sheet, the General Fund column is presented on the fund financial statement basis. The "Adjustments" column represents the items needed to convert the financial statements to the government-wide

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

reporting basis. The Statement of Net Assets column represents amounts that normally would appear in the government-wide statements. Northpointe's net assets are reported as either invested in capital assets, net of related debt, restricted or unrestricted.

Basic Financial Statements-Combined Government-wide and Fund Financial Statements-Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance - In the Combined Government-wide Fund Financial Statement-Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance, the General Fund column is presented on the fund financial statement basis. The "Adjustments" column represents the items needed to convert the financial statements to the government-wide reporting basis. The Statement of Activities column represents amounts that normally would appear in the government-wide statements. Northpointe's change in net assets for the current year is presented in the adjustments column and the Statement of Activities column. This statement also presents the beginning and end of year net assets.

Governmental Funds - The focus of the governmental funds measurement is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of Northpointe:

General Fund - The General Fund is the primary operating fund and, accordingly, it is used to account for all financial resources except those accounted for in another fund.

(3) Basis of Accounting - The basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Governmental activities in government-wide financial statements are presented on the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; that is, when both measurable and available. "Available" means collectible within the current period or within sixty days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred, except for principal and interest on general obligation debt, if any, is recognized when due.

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As allowed by GASB Statement No. 34, Northpointe's financial statements are presented as a Special Purpose Government. Northpointe is a government authority that provides a specific activity to the public in the form of mental health services. Since Northpointe's financial statements are presented as a Special Purpose Government, the basic financial statements were prepared by combining the fund financial statements with the government-wide statements. This combination is presented in a balance sheet and income statement format, using an "Adjustment" column for the conversion from the fund basis to the government-wide basis.

(4) Financial Statement Amounts:

Cash and Cash Equivalents - Northpointe has defined cash and cash equivalents to include cash on hand, demand deposits and any investments with a maturity of three months or less.

Capital Assets - Capital assets purchased or acquired with an original cost of \$5,000 or more are capitalized and reported at historical cost or estimated historical cost. Contributed assets, if any, are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis. General capital assets are those that result from expenditures in the governmental funds. These assets are reported in the Statement of Net Assets column of the Statement of Net Assets and Governmental Funds Balance Sheet.

The expenditures for these assets are reported as Capital Outlay Expenditures in the General Fund column of the Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and changes in Fund Balance. These expenditures are then deducted in the "Adjustments" column to convert the statement to the government-wide basis.

Accrued Liabilities and Long-Term Obligations - Payables and accrued liabilities that will be paid from governmental funds are reported in the General Fund Column of the Statement of Net Assets and Governmental Funds Balance Sheet regardless of whether they will be liquidated with current financial resources. The non-current portion of compensated absences, that will be paid from governmental funds are reported as a liability in this same statement only to the extent that they will be paid with current, expendable, available financial resources (generally, within sixty days of year-end).

Deferred Revenue - Northpointe reports deferred revenue when revenue does not meet both the "measurable" and "available" criteria for recognition in the current period, or when resources are received by Northpointe before it has a legal claim

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

to them, such as when grant money is received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when Northpointe has legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted only when there are limitations imposed on their use through enabling legislation or through external restrictions imposed by creditors, grantors, laws, or other government regulation. In addition, Northpointe will first use restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B - CASH

The cash balance as reported in the Statement of Net Assets and Governmental Funds Balance Sheet is presented below:

	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Cash in bank	\$ 373,052	\$ 3,329,864	\$ 3,702,916
Cash on hand	-	1,966	1,966
	<u>\$ 373,052</u>	<u>\$ 3,331,830</u>	<u>\$ 3,704,882</u>

Statutory Authority - Act 196, PA 1997, authorized Northpointe to deposit and invest in:

1. Bonds, securities, and other direct obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution eligible to be a depository of funds belonging to the State of Michigan under a law or rule of this state or the United States.
3. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
4. Repurchase agreements consisting of instruments issued by the United States or an agency or instrumentality of the United States.

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE B - CASH (continued)

5. Bankers' acceptance of United States banks.
6. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
7. Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

All deposits are carried at cost, which approximates market value, and are in accordance with statutory authority.

Attorney General's Opinion No. 6168 states that Public Funds may not be deposited in financial institutions located in states other than Michigan.

Custodial Credit Risk - As of September 30, 2006, the carrying amount of Northpointe's deposits was \$3,702,916 and the bank balance was \$3,800,682. Of the bank balance \$106,955 was covered by federal depository insurance and \$3,693,727 was uninsured and uncollateralized.

Interest Rate Risk - Northpointe's investment policy follows state law with respect to investment maturity. At present none of Northpointe's deposits carried maturity dates, consequently there is no significant interest rate risk.

NOTE C - RESTRICTED CASH

As reported on the Statement of Net Assets and Governmental Funds Balance Sheet, Northpointe has restricted cash of \$373,052. This includes \$367,898 for accumulated sick and vacation pay and \$5,154 for the Internal Revenue Code Section 125 medical reimbursement plan. When both restricted and unrestricted resources are available it is Northpointe's policy to use restricted resources first.

NOTE D - RECEIVABLES

Detail of the receivables at September 30, 2006 is as follows:

Federal grants	\$ 33,021
Medicaid	40,998
Patient fees	20,364
Miscellaneous	<u>50,016</u>
TOTAL RECEIVABLES	<u>\$ 144,399</u>

An allowance for doubtful accounts has not been established since all amounts are fully collectible. In the event that an amount becomes uncollectible, the receivable and the corresponding revenue are eliminated.

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE E - PENSION PLANS

Plan Descriptions - For the year ended September 30, 2006, Northpointe had two pension plans with five divisions. The first plan is a defined contribution money purchase pension plan administered by the ICMA Retirement Corporation. The first division is for paraprofessionals, which consists of hourly employees. This division has a three percent employer and zero employee contribution with a three-year vesting schedule. The second division is for former Menominee County mental health clinic administrative employees and Northpointe administrative employees hired after the January 1, 1995 merger date. This division has a seven percent employer and zero percent employee contribution with a five-year vesting schedule. Both divisions have minimum service requirements of twelve months of credited service and eighteen years of age. This plan's five-year vesting schedule allows twenty percent vesting each year.

The second plan maintained by Northpointe is through the Michigan Municipal Employee's Retirement System ("System" or "MERS"), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for Michigan municipal employees. MERS issues a publicly available financial report that includes the financial statements and required supplementary information for the entire System. The report may be obtained by writing to MERS, 1134 Municipal Way, Lansing, Michigan 48917.

Defined Benefit Plan - This plan is a defined benefit plan that covers three groups of employees and the CEO under separate provisions. The first group is administrative employees from the Dickinson-Iron Community Mental Health Services Board (Board) prior to the merger.

The employees who retire at or after the age of 60 with ten years of credited service are entitled to an annual retirement benefit, payable monthly for life, in the amount equal to the sum of 2.25 percent times the member's five-year final average compensation, with a maximum benefit of 80 percent of final average compensation. The plan also provides death and disability benefits.

Employees contribute two percent of their salary to the plan with the Board making up the rest of the contribution, which is actuarially determined. The employee's portion is fully vested immediately; the Board's portion is vested after ten years of credited service. The Board's portion is immediately vested, however, if the employee dies or becomes disabled while on the job.

The second group of employees covered under the MERS program is professional employees. This group has no employee contribution requirement. The Board's contribution vests to the employee after six years of credited service and the annual retirement benefit multiplier is two percent. The third group is the same as the second group with the annual retirement benefit multiplier being 2.25 percent with a maximum of 80 percent of final average compensation. The CEO is also covered under the MERS defined benefit program. This plan has no employee contribution

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE E - PENSION PLANS (continued)

requirement and the Board's contribution vests after six years of credited service. The retirement benefit multiplier is 2.25 percent with a maximum of 80 percent of final compensation. This program allows retirement at age 55 with 15 or more years of services with no reduction of benefits.

Funding Status and Progress - The amount shown below as the "actuarial accrued liability" represents the difference between the present value of all future benefits and the present value of future normal costs. The overfunded actuarial liability, which represents the actuarial accrued liability less assets accumulated, is then amortized over a period of thirty years. The measure over time is intended to help users assess the funding status of the System on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and allow for comparisons among public employee retirement plans.

Under the entry age normal cost method, the total actuarially-determined contribution requirement is the sum of the normal cost and the payment required to amortize the unfunded accrued liability less the accelerated funding credits, if any.

At December 31, 2005, the over funded actuarial accrued liability was \$345,120, determined as follows:

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	\$1,243,333
Terminated employees not yet receiving benefits	808,499
Non-vested terminated employees	42,669
Current employees:	
Accumulated employee contributions including allocated investment income	532,666
Employer financed	<u>3,605,908</u>
Total Actuarial Accrued Liability	\$6,233,075
Net assets available for benefits at actuarial value (market value is \$6,404,854)	<u>6,578,195</u>
UNFUNDED (OVERFUNDED) ACTUARIAL ACCRUED LIABILITY	<u>\$ (345,120)</u>

Actuarially Determined Contributions Required and Contributions Made - Periodic employee contributions are determined on an actuarial basis using the entry age normal cost method. Normal cost is funded on a current basis whereas over funded actuarial accrued liability is funded over a thirty-year period. Periodic contributions for both normal cost and the amortization of the over funded actuarial accrued liability are based on the level percentage of payroll method. The actuarial assumptions used include (a) a rate of return on the investment of 8% per year for present and future assets, (b) projected salary increases of 4.5% per year, compounded annually, attributable to inflation, and (c) additional projected salary increases ranging from 0% to 8.4% based upon seniority and merit.

The employer contribution rate has been determined based on the entry

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE E - PENSION PLAN (continued)

age normal cost method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry-age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit. The following table provides a schedule of contribution amounts and percentages of recent years.

Valuation Date <u>December 31</u>	Annual Required <u>Contribution</u>	Percent <u>Contributed</u>
2003	\$ 10,590	100%
2004	209,112	100%
2005	218,112	100%

Analysis of Funding Progress

	(a)	(b)	(b-a)		(c)	((b-a)/c)
Actuarial Valuation <u>December 31</u>	Actuarial Value <u>of Assets</u>	Entry Age Actuarial Accrued <u>Liability</u>	Overfunded Accrued Liability <u>(OAL)</u>	(a/b) Funded <u>Ratio</u>	Annual Covered <u>Payroll</u>	UAL as a Percentage of Covered <u>Payroll</u>
2003	\$5,834,613	\$5,054,754	\$ (779,859)	115%	\$2,499,582	0%
2004	6,182,388	5,719,943	(462,445)	108%	2,721,781	0%
2005	6,578,195	6,233,075	(345,120)	106%	2,817,135	0%

NOTE F - VESTED EMPLOYEE BENEFITS

All full and part-time employees of Northpointe are entitled to accrue vacation and sick pay benefits. Employees begin to accrue benefits the first day of the month following two full calendar months of employment. Accrued but unused vacation leave may accumulate to a maximum of 200 hours. All vacation earned in excess of 200 hours is forfeited on September 30th. Employees are paid at the rate of one hour for every two hours forfeited, paid at the first full payroll of the new year. Sick leave benefits accrue up to a limit of 120 days for all employees. Upon termination of employment, employees are entitled to receive 100 percent of their accrued vacation leave if the employee gives a minimum of two weeks notice. Sick leave would be paid out to any employee upon termination at a rate of 50 percent of their accrued leave over 60 days up to 120 days at their current rate of pay. As of September 30, 2006, the Board has restricted cash in the amount of \$367,898 to fund future vacation and sick pay benefits.

NOTE G - DUE TO STATE

Due to State at September 30, 2006, is as follows:

In-patient facilities	<u>\$ 63,990</u>
-----------------------	------------------

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE H - LEASE COMMITMENTS

Northpointe has entered into a number of non-cancelable operating leases for facilities with varying terms and conditions. Required minimum payments for the fiscal years ending September 30 are as follows:

<u>Fiscal Year Ended</u>	<u>Amount</u>
2007	\$ 189,600
2008	148,053
2009	116,781
2010	54,237
2011	31,337
2012-2016	<u>24,527</u>
TOTAL	<u>\$ 564,535</u>

NOTE I - DEFERRED REVENUE

Deferred revenue at September 30, 2006 is as follows:

Prevention	\$ 18,853
SSI Clients	1,687
Carryforward of FY 2006 General Fund Revenue	13,987
Other	<u>550</u>
TOTAL	<u>\$ 35,077</u>

NOTE J - DUE TO NORTHCARE

The \$881,781 listed as due to Northcare as of September 30, 2006, represents Medicaid funding not spent in fiscal year 2005 and is available for expenditure in fiscal year 2006.

NOTE K - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2006 was as follows:

	<u>Balance at 10/01/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 9/30/06</u>
Non-depreciated capital assets:				
Land	\$ 44,700	\$ -	\$ -	\$ 44,700
Other Capital Assets:				
Land improvements	5,092	-	-	5,092
Buildings	1,429,227	37,200	-	1,466,427
Equipment	867,655	42,810	-	910,465
Vehicles	<u>985,907</u>	<u>52,526</u>	<u>-</u>	<u>1,038,433</u>
Total capital assets subject to depreciation	<u>3,287,881</u>	<u>132,536</u>	<u>-</u>	<u>3,420,417</u>
TOTAL CAPITAL ASSETS	<u>3,332,581</u>	<u>132,536</u>	<u>-</u>	<u>3,465,117</u>
Accumulated depreciation:				
Land improvements	594	509	-	1,103
Buildings	226,225	58,111	-	284,336
Equipment	633,186	59,359	-	692,545
Vehicles	<u>834,642</u>	<u>63,843</u>	<u>-</u>	<u>898,485</u>
Subtotal	<u>1,694,647</u>	<u>181,822</u>	<u>-</u>	<u>1,876,469</u>
NET CAPITAL ASSETS	<u>\$ 1,637,934</u>	<u>\$ (49,286)</u>	<u>\$ -</u>	<u>\$ 1,588,648</u>

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE L - LONG-TERM DEBT

Long-term debt represents the following as of September 30, 2006:

<u>Description</u>	<u>Carrying Amount</u>	<u>Amount due in one year</u>
Notes Payable		
Note payable, secured by real estate, due in monthly installments of \$1,881, through June 2007, including interest at 5.05%.	\$ 261,288	\$ 261,288
Note payable, secured by real estate, due in monthly installments of \$3,282, through December 2009, including interest at 3%.	657,072	19,945
Note payable, secured by a vehicle, due in monthly installments of \$342, through September 2007, including interest at 4.93%	3,654	3,654
Note payable, secured by a vehicle, due in monthly installments of \$263, through September 2007, including interest at 4.93%	2,812	2,812
Note payable, secured by a vehicle, due in monthly installments of \$263, through September 2007, including interest at 4.93%	2,812	2,812
Note payable, secured by a vehicle, payable in monthly installments of \$571, through June 2009, including interest at 6.25%	17,255	5,936
Note payable, secured by a vehicle, payable in monthly installments of \$359, through December 2008, including interest at 5.29%	9,112	3,917
Note payable, secured by a vehicle, payable in monthly installments of \$277, through October 2008, including interest at 3.9%	6,664	3,121
Note payable, secured by a vehicle, payable in monthly installments of \$277, through October 2008, including interest at 3.9%	6,665	3,122
Note payable, secured by a vehicle, payable in monthly installments of \$277, through October 2008, including interest at 3.9%	6,664	3,121
Note payable, secured by a vehicle, payable in monthly installments of \$277, through October 2008, including interest at 3.9%	6,665	3,122

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE L - LONG-TERM DEBT (continued)

<u>Description</u>	<u>Carrying Amount</u>	<u>Amount due in one year</u>
Note payable, secured by a vehicle, payable in monthly installments of \$710, through July 2009, including interest at 6.25%	\$ 22,089	\$ 7,353
Note payable, secured by a vehicle, payable in monthly installments of \$306, through December 2008, including interest at 5.00%	7,770	3,360
Note payable, secured by a vehicle, payable in monthly installments of \$242, through December 2008, including interest at 5.00%	6,141	2,655
Note payable, secured by a vehicle, payable in monthly installments of \$321, through October 2009, including interest at 6.85%	10,709	3,224
Note payable, secured by equipment, payable in monthly installments of \$177, through August 2007, including interest at 11.55%	1,836	1,836
Note payable, secured by equipment, payable in monthly installments of \$2,005, through May 2010, including interest at 4.97%	80,490	20,521
Note payable, secured by equipment, payable in monthly installments of \$2,085, through December 2007, including interest at 5.12%	30,236	24,036
Note payable, secured by vehicles, payable in monthly installments of \$1,170, through March, 2010 including interest at 4.8%	<u>45,082</u>	<u>12,108</u>
TOTAL NOTES PAYABLE	<u>\$1,185,016</u>	<u>\$ 387,943</u>

Future minimum payments of the notes payable are as follows:

<u>Fiscal Year Ended September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 387,943	\$ 40,489	\$ 428,432
2008	102,056	25,088	127,144
2009	76,616	20,812	97,428
2010	<u>618,401</u>	<u>4,847</u>	<u>623,248</u>
TOTAL	<u>\$1,185,016</u>	<u>\$ 91,236</u>	<u>\$1,276,252</u>

The following is a summary of the long-term debt activity as of September 30, 2006:

	<u>09/30/05</u>	<u>Additions</u>	<u>Payments</u>	<u>09/30/06</u>
Notes payable	<u>\$ 1,262,850</u>	<u>\$ 50,912</u>	<u>\$128,746</u>	<u>\$1,185,016</u>

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE M - RISK MANAGEMENT

Northpointe participates as a member in Michigan Municipal Risk Management Authority (Authority). The Authority is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. The purpose of the Authority is to administer a risk management fund, which provides members with loss protection for general and auto liability, motor vehicle physical damage, and property.

The Authority has entered into reinsurance agreements providing for loss coverage in excess of the amounts to be retained by the Authority and individual members.

In the event a reinsurance company does not meet its obligation to the Authority, responsibility for payment of any unreimbursed claims will be that of the Authority Reinsurance Fund. The Authority has retained certain levels of risk rather than obtaining coverage through reinsurance agreements. The Authority established the Authority Reinsurance Fund in order to participate in the reinsurance agreements. Individual members are provided the same level of coverage previously afforded through a combination of the reinsurance agreements and the Reinsurance Fund. In addition, the Authority purchases insurance for certain risks not covered by the reinsurance agreements. At September 30, 2006, Northpointe has no outstanding claims which exceed the plan's limits and there has been no significant reduction in insurance coverage over the past three years.

NOTE N - HEALTH INSURANCE

Northpointe maintains a self-insurance program for health insurance that began on January 1, 2005. This program is administered by a third-party administrator. A liability of \$104,054 is recorded in the financial statements which represents claims paid after year-end for services rendered prior to the year-end.

NOTE O - CONCENTRATIONS

Northpointe derives a significant portion of their total support and revenues from the Michigan Department of Community Health (MDCH) through Medicaid and Public Act 258 funding. Revenue and support recognized for the year ended September 30, 2006, provided by MDCH represented approximately 90 percent of Northpointe's total support and revenue.

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE P - CONTINGENT LIABILITIES

Northpointe has received significant financial assistance from state and federal agencies. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in grant agreements or contracts and are subject to audit by the funding agency. Any disallowed claims resulting from such audits could become a liability of Northpointe. As of the date of this report management was unaware of any disallowed claims.

REQUIRED SUPPLEMENTARY INFORMATION

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE, BUDGET AND ACTUAL - GENERAL FUND**

For the year ended September 30, 2006

	<u>Budgeted Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Federal sources	\$ 172,782	\$ 172,782	\$ 172,969	\$ 187
State sources	3,229,385	3,229,385	3,226,425	(2,960)
Medicaid	11,470,600	11,470,600	11,365,858	(104,742)
Medicare	140,000	140,000	148,799	8,799
Local	244,560	244,560	242,101	(2,459)
Charges for services	690,839	690,839	722,239	31,400
Other revenues	207,560	207,560	218,452	10,892
Proceeds from borrowing	-	-	50,912	50,912
	<u>16,155,726</u>	<u>16,155,726</u>	<u>16,147,755</u>	<u>(7,971)</u>
TOTAL REVENUE				
EXPENDITURES:				
Current:				
Salaries and related expenses	8,782,475	8,782,475	9,241,652	(459,177)
Board related expenses	31,800	31,800	31,922	(122)
Office supplies and postage	50,400	50,400	53,357	(2,957)
Operating and program supplies	270,000	270,000	352,402	(82,402)
Client medical	182,400	182,400	171,504	10,896
Pharmacy	50,400	50,400	58,774	(8,374)
Dental	21,600	21,600	13,719	7,881
MIS Support	198,000	198,000	156,781	41,219
Staff medical	30,000	30,000	27,467	2,533
Local match MRS Grant	12,168	12,168	12,168	-
Contract employee services	156,000	156,000	148,216	7,784
Legal, professional, accounting	15,000	15,000	14,285	715
Local in-patient	580,800	580,800	506,776	74,024
County in-patient	27,000	27,000	24,870	2,130
State in-patient	312,000	312,000	277,495	34,505
Home services	2,135,004	2,135,004	2,092,496	42,508
Community mental health	2,400	2,400	2,049	351
Pathways	21,600	21,600	23,429	(1,829)
Trico	540,000	540,000	530,800	9,200
Goodwill	321,600	321,600	318,983	2,617
DICSA	62,000	62,000	61,992	8
Crisis services	23,400	23,400	23,240	160
Respite	140,400	140,400	133,845	6,555
Telephone	120,000	120,000	110,515	9,485
Utilities	120,000	120,000	127,872	(7,872)
Staff development and travel	186,000	186,000	168,871	17,129
Vehicle operations/maintenance	162,960	162,960	176,659	(13,699)
Vehicle leases/purchases	70,200	70,200	-	70,200
Advertising	19,800	19,800	17,193	2,607
Recruitment	1,200	1,200	-	1,200
Liability insurance	90,000	90,000	88,252	1,748
Repairs and maintenance	154,800	154,800	165,924	(11,124)
Rent - facilities and equipment	324,240	324,240	299,172	25,068
Dues and publications	18,000	18,000	17,523	477
Pathways PHP	192,336	192,336	192,326	10
Miscellaneous	-	-	7,419	(7,419)
Capital outlay	69,600	69,600	132,536	(62,936)

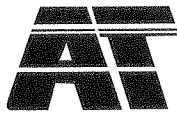
NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE, BUDGET AND ACTUAL - GENERAL FUND

For the year ended September 30, 2006

	<u>Budgeted Amounts</u>			<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
Debt Service:				
Principal	\$ -	\$ -	\$ 128,746	\$ (128,746)
Interest	20,400	20,400	54,220	(33,820)
TOTAL EXPENDITURES	<u>15,515,983</u>	<u>15,515,983</u>	<u>15,965,450</u>	<u>(449,467)</u>
Change in net assets	639,743	639,743	182,305	(457,438)
Net assets, beginning of year	<u>1,338,656</u>	<u>1,338,656</u>	<u>1,338,656</u>	<u>-</u>
NET ASSETS, END OF YEAR	<u>\$ 1,978,399</u>	<u>\$ 1,978,399</u>	<u>\$ 1,520,961</u>	<u>\$ (457,438)</u>

OTHER INFORMATION



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA
Lindsay J. Behrend, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Northpointe Behavioral
Healthcare Systems
Kingsford, Michigan

We have audited the financial statements of the Northpointe Behavioral Healthcare Systems as of and for the year ended September 30, 2006 and have issued our report thereon dated January 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northpointe's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northpointe's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant

Board of Directors
Northpointe Behavioral
Healthcare systems
Kingsford, Michigan

agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Northpointe in a separate letter dated January 19, 2007.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company P.C.

Certified Public Accountants

January 19, 2007



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA
Lindsay J. Behrend, CPA

REPORT TO MANAGEMENT

To the Board of Directors
Northpointe Behavioral Healthcare Systems
Kingsford, MI 49802

We have audited the financial statements of the Northpointe Behavioral Healthcare Systems for the year ended September 30, 2006, and have issued our reports thereon dated January 19, 2007. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility under U. S. Generally Accepted Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

In planning and performing our audit, we considered Northpointe's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether Northpointe's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

As part of our audit, we considered the internal control structure of Northpointe. Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions. Our consideration of the system of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

Significant Accounting Policies

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by Northpointe are described in Note A of the financial statements. No new accounting policies were adopted and the application of existing policies were not changed during the fiscal year. We noted no transactions entered into by Northpointe during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Some accounting estimates are utilized in financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate would involve the useful lives of fixed assets. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the estimates.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Our audit adjustments, individually and in the aggregate, do not have a significant effect on the financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Northpointe or a determination of the type of auditor's opinion to be expressed on those statements, our professional

Board of Directors
Northpointe Behavioral Healthcare Systems

standards require the consulting accountant to advise us as to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Northpointe's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

In planning and performing our audit of the financial statements of Northpointe, for the year ended September 30, 2006, we considered Northpointe's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated January 19, 2007, on the financial statements of Northpointe.

We have already discussed many of these comments and suggestions with various Northpointe personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This information is intended solely for the use of the Board, management and applicable State and Federal grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

Anderson Tackman & Company P.C.
Certified Public Accountants

January 19, 2007

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

COMMENTS AND RECOMMENDATIONS

September 30, 2006

FIXED ASSETS

Presently the depreciation schedule for Northpointe's fixed assets do not match the general ledger balances. We recommend that a reconciliation be performed and appropriate adjustments be made to the general ledger.